

**Estimates for the combined cost of investments for large health plans range from \$420 - \$640 million, and possibly more, over the next five years.**

**Estimated Average Health Plan Investment Needs In the Next 3-5 Years\***  
(for Large Health Plans with Revenues > \$500 Million)

Investment Category	Low	High
HIPAA Health Insurance Portability and Accountability Act	\$30	\$60
eCommerce	\$10	\$40
Consumer-focused Initiatives	\$20	\$40
IT Infrastructure Improvements	\$30	\$50
Merger and Acquisition Activity**	\$330	\$450
Other (e.g., merger integration expenditures, partnerships / interconnectivity, potential future regulations, etc.)	Additional	Additional
<b>Total Investment (in Millions)</b>	<b>\$420+</b>	<b>\$640+</b>

\*Estimates based on industry analyst projections and current market conditions; may evolve given new information over time

\*\* Estimated based on the average actual cash expended on mid-range health plan acquisitions since 1997, screened against available merger candidates in CareFirst's markets

Source: Gartner Research, 2000 Payer IT Budget and Staffing Survey, August 14, 2001; Gartner Research, 2000 IT Spending and Staffing Survey, October 2, 2000; SEC Filings; Company press releases; Merger news articles; Accenture analysis, surveys and client experience

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Details to Follow

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**Recent survey findings regarding IT expenditures suggest that a plan similar in size to CareFirst might allocate \$5 -\$10 million a year on HIPAA remediation.**

## Estimated Health Plan HIPAA Budget\*

<b>Gartner - 2000 Payer IT Budget and Staffing Survey</b> <i>Health Plans &gt;\$500MM Revenues</i>	
	<b>\$PMPY</b>
Operating budget allocation	\$ 32.28
Capital budget allocation	\$ 14.05
<b>Total IT Spend \$PMPY</b>	<b>\$ 46.33</b>

<b>Gartner - 2000 IT Spending and Staffing Survey</b> <i>Insurance - Health/HMO</i>	
<b>IT Budget Category</b>	<b>% of IT</b>
New Developments	17.4%
• 100% allocated to: HIPAA, eCommerce, Consumer-focused Initiatives and IT Infrastructure	
Major Enhancements	12.1%
• 100% allocated to: HIPAA, eCommerce, Consumer-focused Initiatives and IT Infrastructure	
Application Support & Maintenance	15.0%
• <5% allocated to: eCommerce	
Infrastructure & Administration	55.5%
• <5% allocated to: eCommerce	

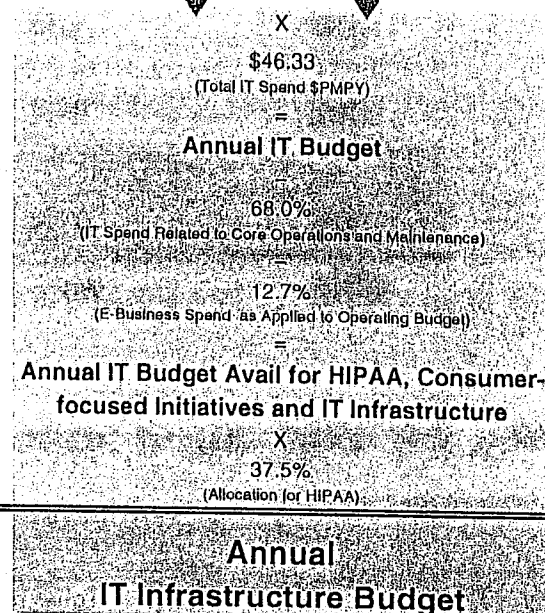
<b>IT Spend Assumptions</b>	
	<b>% of IT</b>
Core Operations and Maintenance	68.2%
E-Business as % of Operating Budget	12.7%

### Low Estimate

1.25 Million Members

### High Estimate

2.5 Million Members



\*Budget estimates were modeled according to Gartner data relating to IT Budgets and E-Business spend as well as Accenture client experience and should be considered as a high-level range for large health plans. Approximately 80% of HIPAA investments (expected over the next 3-5 years) are estimated to be IT-related.

Source: Gartner Research, 2000 Payer IT Budget and Staffing Survey, August 14, 2001; Gartner Research, 2000 IT Spending and Staffing Survey, October 2, 2000; Accenture Analysis

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## **The first set of HIPAA standards, due in October 2002, addresses electronic transactions and code sets.**

### **HIPAA Standards**

- The first set, published in August 2000, provide the healthcare industry until October 2002 to adopt:
  - Electronic transaction standards
  - Code sets
- The second set of standards, referred to as the Privacy Rule, became effective in April 2001 with a two-year compliance term to:
  - Establish patient rights
- States can expect at least seven more waves of HIPAA regulations over the next two years, with each allowing roughly 24 months for implementation:
  - National provider identifiers
  - National employer identifiers
  - Security, national health plan identifiers
  - Claims attachments
  - Enforcement
  - National individual identifiers

Source: [www.aspe.hhs.gov/adminsimp](http://www.aspe.hhs.gov/adminsimp), *Frequently Asked Questions About Electronic Transaction Standards Adopted Under HIPAA*

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## **The costs associated with HIPAA implementation and compliance vary, but the investment appears inevitable.**

### **HIPAA Implementation Costs – Industry Estimates**

- Although there is some chance that a delay in publishing and/or mandating compliance of HIPAA standards may occur, the investment appears inevitable
- The U.S. Office of Management and Budget has estimated HIPAA implementation will cost the entire healthcare industry (both public and private sectors) approximately \$3.8 billion over five years
- Others have reported that industry-wide costs could go as high as \$43 billion for the same time period
- The cost of HIPAA will depend on the strategy taken for achieving compliance:
  - information system replacement
  - the start-up costs of automation
  - training and process reengineering
  - costs associated with addressing implementation problems

### **HIPAA Implementation Costs – Payer Estimates**

- For at least 75 percent of healthcare organizations (payers and providers), the time and money spent on achieving HIPAA-compliance by 2004 will represent between one and two times their efforts and costs for Y2K (0.8 probability).
- However, 73% of all payers and providers polled by Gartner indicated that they have not developed preliminary overall budgets for achieving HIPAA compliance
- Of the payers that did provide information for their overall budgets, estimates ranged from \$50,000 to \$100 million
- On average, the overall HIPAA budget was \$10 million; however an earlier survey by Gartner suggests that spending is higher for larger payers
- For payers, 2001 budgets ranged from a low of \$25,000 for a small private insurer to \$60 million for one of the nation's largest HMOs, with an average of \$4.2 million

Source: Legislative Analyst's Office of California, *Analysis of the 2001-2002 Budget Bill: Health Insurance Portability and Accountability Act*, Gartner Research, *HIPAA: State of the Industry Through First-Quarter 2001*, May 1, 2001